

Message Text

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C O R R E C T E D C O P Y (PARA 2, (G) LINE 15 OMITTED)

E.O. 11652: GDS

TAGS: PGOV, PINT, ASEAN, MY

SUBJECT: SECRETARY'S MEETING WITH MALAYSIAN DEPUTY PRIME
MINISTER

1. SUMMARY. SECRETARY MET JULY 16 WITH VISITING MALAYSIAN
DEPUTY PM MAHATHIR. DISCUSSIONS COVERED ASEAN - MALAYSIAN
APPRECIATION "KEEN US INTEREST" IN ASEAN AS A GROUP;
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INDONESIA - MALAYSIAN CONCERN SUHARTO NOT RECEIVING AS
MUCH WESTERN ASSISTANCE AS WARRANTED; TOKYO ROUND - USG
SEES NEED FOR REAL PROGRESS 1977 TO DEFUSE GLOBAL PROTEC-
TIONIST TREND; VIETNAM - SRV FOCUSSED ON DOMESTIC PROBLEMS
AND NO LONGER AS SUSPICIOUS OF ASEAN; CAMBODIA - A CONTINU-
ING ENIGMA; CHINA - SECRETARY'S TRIP EXPLORATORY WITH NO
DRAMATIC RESULTS EXPECTED; REFUGEES - USG INTEREST IN

CONTINUING MALAYSIAN ACCEPTANCE ON TEMPORARY BASIS, PRESIDENT'S DECISION IN PRINCIPLE ACCEPT 15,000 ADDITIONAL REFUGEES AND US QUERY ON POSSIBLE UTILITY INTERNATIONAL CONFERENCE; INVESTMENT - MAHATHIR'S TRIP OFF TO SLOW START DUE NEW YORK BLACKOUT; AND PM HUSSEIN ONN'S VISIT -- AGREEMENT IN PRINCIPLE FOR WASHINGTON CALL ON PRESIDENT POSSIBLY LAST WEEK IN SEPTEMBER.

2. SUMMARY KEY TOPICS (NOT IN ORDER DISCUSSED) IS AS FOLLOWS:

(A) ASEAN - MAHATHIR SAID ASEAN SUMMIT WILL RESULT IN GREATER DEGREE COMMON UNDERSTANDING, BUT ECONOMIC COOPERATION WILL CONTINUE SLOW BASED IN PART ON STRUCTURAL DISPARITIES. AGREEMENTS IN PRINCIPLE THUS TEND TO BOG DOWN ON DETAILS, BUT INDONESIA WILL "COME AROUND IN TIME". HE COUNSELED U.S. NOT TO MISINTERPRET ASEAN AS ANOTHER EEC (WHICH MALAYSIA DID NOT VIEW AS PARTICULARLY SUCCESSFUL ANYWAY). SECRETARY NOTED WE WERE LOOKING FORWARD TO ASEAN-US ECONOMIC CONSULTATIONS AND MAHATHIR EXPRESSED APPRECIATION "KEEN US INTEREST IN ASEAN AS A GROUP". HE AGREED US-ASEAN RELATIONSHIP SHOULD BE DIRECTED AT LONG-TERM COOPERATION RATHER THAN SHORT-TERM DEMANDS. HE ADDED ASEAN HAS A FUTURE AND IS A USEFUL VEHICLE FOR GROUP ACTION ON SELECTED ISSUES WHILE RETAINING BILATERAL OPTIONS ON OTHERS. HE AGREED ASEAN HAS AN IMPORTANT ROLE IN THE

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NORTH-SOUTH DIALOGUE. MALAYSIA WILL PURPOSEFULLY DEFER TO INDONESIAN LEADERSHIP WHEN FEASIBLE, ALTHOUGH TAKING LEAD ON SOME ISSUES SUCH AS TIN CONSULTATIONS IN BOLIVIA.

(B) INDONESIA - MAHATHIR NOTED MALAYSIAN CONCERN OVER FUTURE OF INDONESIA SHOULD SUHARTO BE REPLACED BY "INTOLERANT" MUSLIM GROUPS AS PART OF CURRENT "WORLDWIDE ISLAMIC RESURGENCE". MALAYSIA THUS WISHED INCREASE SUHARTO'S PRESTIGE AND INDONESIA'S ECONOMIC VIABILITY. HE NOTED IMPROVEMENT IN INDONESIA'S ADMINISTRATIVE ABILITIES BUT IMPORTANT GAPS REMAIN. MALAYSIA BELIEVES INDONESIA NEEDS HELP (INCLUDING FOREIGN INVESTMENT FOR ECONOMIC STABILITY) AND SUHARTO "... PREFERS TO LOOK TO THE WEST FOR MORE ASSISTANCE THAN HE IS ACTUALLY RECEIVING." THERE WAS GENERAL AGREEMENT THAT PERTAMINA CRISIS IS BEING ABSORBED AND INDONESIAN ECONOMY IS ON AN UPWARD TREND.

(C) TOKYO ROUND - SECRETARY NOTED US ECONOMY ON CORRECT PATHS FOR REACHING TARGETS ON REDUCING INFLATION AND UNEMPLOYMENT. NEITHER FRG NOR JAPAN ARE MEETING TARGETS ANNOUNCED AT THE LONDON SUMMIT, BUT CHANCELLOR SCHMIDT AGREED DURING HIS VISIT LAST WEEK TO ACCELERATE GROWTH

IN THE FALL AND JAPAN IS ALSO TAKING STIMULATIVE ACTION.
THE SECRETARY NOTED RISING TREND GLOBAL PROTECTIONISM

WHICH PRESIDENT CARTER IS TRYING TO STEM IN
US AND ABROAD, AND THE CONSEQUENT NECESSITY FOR MAKING
REAL PROGRESS IN THE TOKYO ROUND DURING 1977. THE US WILL
TABLE A PROPOSAL TO BREAK THE DEADLOCK AND HOPEFULLY
PROVIDE SOME MOMENTUM. IN THIS CONTEXT, IT WAS NOTED
ASEAN COULD BE CONSTRUCTIVE AND THE SECRETARY COMMENTED HE
HAD PERSONALLY ENCOURAGED STR STRAUSS TO VISIT SEA IN
SEPTEMBER. PROGRESS IN THE MTN WILL BE A MAJOR FOCUS
DURING US-ASEAN ECON CONSULTATIONS.

(D) VIETNAM - MALAYSIAN-SRV RELATIONS HAVE IMPROVED SINCE
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THE VISIT TO HANOI BY FONMIN RITHAUDDEEN. MALAYSIA SEES
NO EVIDENCE THAT SRV IS SUPPLYING ARMS OR SUPPLIES TO ITS
INSURGENCIES AND THE SRV HAS GONE TO SOME LENGTH TO MUTE
ITS PREVIOUS EXPRESSIONS OF MISTRUST TOWARD ASEAN. VIET-
NAM HAS TECHNICAL AND HUMAN RESOURCE LIMITS AND APPEARS
TO BE CONCENTRATING ON DOMESTIC PROBLEMS. HOWEVER, GIVEN
PAST EXPERIENCE WITH VIETNAM AND ITS COMMUNIST IDEOLOGY,
IT IS PRUDENT TO REMAIN ALERT FOR ANY CHANGES IN SRV
ATTITUDES. THE SECRETARY STATED THE USG ANTICIPATES
SUPPORTING SRV MEMBERSHIP IN THE UN ON THE BASIS OF
UNIVERSALITY.

(E) CAMBODIA - IN RESPONSE TO THE SECRETARY'S QUESTIONS,
MAHATHIR DISCUSSED THE CONTRAST BETWEEN TRADITIONAL
CAMBODIAN MILDNESS (INCLUDING PM SARY'S PERSONAL STYLE)
AND THE CURRENT ATROCITIES. HE CHARACTERIZED CAMBODIA AS
"A MILD PEOPLE GONE BESERK". MALAYSIAN EFFORTS TO IMPROVE
RELATIONS INCLUDING AN EXCHANGE OF EMBASSIES HAVE HAD NO
REAL RESPONSE. CAMBODIA HAS ONLY A LIMITED CAPACITY TO
HARM MALAYSIA ALTHOUGH IT DOES CREATE PROBLEMS FOR THAI-
LAND. DESPITE CAMBODIA'S ALOOFNESS, IT IS APPARENT THAT
MALAYSIAN-CAMBODIAN RELATIONS ARE BETTER THAN BETWEEN
CAMBODIA AND THE SRV WHERE ARMED CLASHES CONTINUE TO OCCUR.
THE CAMBODIANS APPEAR TO RESIST ANY VIETNAMESE ROLE AND
CAMBODIAN-SRV RELATIONS IN HANOI ARE COLD.

(F) CHINA - SECRETARY STRESSED HIS TRIP TO CHINA WOULD
BE A MUCH NEEDED EXPLORATION BY SENIOR OFFICIALS OF A
COMPREHENSIVE AGENDA. NO IMMEDIATE DECISIONS OR DRAMATIC
RESULTS ARE EXPECTED. MAHATHIR NOTED THE PRC IS CURRENTLY
BEHAVING "CORRECTLY" IN A SOPHISTICATED MANNER AND IS NOT
INVOLVED IN MALAYSIAN COMMUNAL AFFAIRS. MALAYSIA BELIEVES
IT MADE THE RIGHT MOVE IN ACCEPTING A PRC EMBASSY.
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(G) REFUGEES - THE SECRETARY ANNOUNCED THAT THE PRESIDENT ON JULY 15 HAD DECIDED TO ADMIT 15,000 ADDITIONAL REFUGEES UNDER TERMS OF THE ATTORNEY GENERAL'S PAROLE AUTHORITY WHICH WOULD OBTAIN THE NEED FOR CONGRESSIONAL APPROVAL. THE ISSUE WITH THE CONGRESS MIGHT REMAIN CONTENTIOUS, BUT OUR ACT WOULD EASE THE PRESSURE ON COUNTRIES SUCH AS MALAYSIA WHOSE CONTINUED COOPERATION IN ACCEPTING REFUGEES TEMPORARILY IS BADLY NEEDED. MAHATHIR RECITED INSTANCES OF LOCAL POLITICAL PROBLEMS POSED BY REFUGEES, BUT VOLUNTEERED MALAYSIA WOULD CONTINUE ITS POLICY OF ACCEPTING REFUGEES ON A TEMPORARY BASIS. THE SECRETARY QUERIED MAHATHIR'S INFORMAL VIEW ON WHETHER AN INTERNATIONAL CONFERENCE ON REFUGEES WOULD BE HELPFUL EITHER IN THE UN OR IN ANOTHER FORUM. MAHATHIR REPLIED

THAT A CONFERENCE WOULD BE USEFUL BUT RESULTS COULD NOT BE BINDING.

(H) INVESTMENT - MAHATHIR'S EFFORTS PURSUE INVESTMENT OFF TO SLOW START BECAUSE OF NEW YORK BLACKOUT. (A RUMP SESSION WAS FINALLY HELD IN STAMFORD, CNN.; FOLLOWING AN AUTO CONVOY FROM MANHATTAN.) HE REVIEWED WITH SECRETARY AREAS OF MALAYSIAN INTEREST (ELECTRONICS, CHEMICALS, SHIPPING, LNG AND THE REYNOLDS METAL PROJECT), ACKNOWLEDGED THAT MALAYSIA'S INVESTMENT TARGET (US DOLLARS 10 BILLION IN FIVE YEARS) WOULD NOT BE MET, AND MALAYSIAN OIL PRODUCTION WOULD BE REGULATED TO RETAIN RESERVES. IN RESPONSE TO QUESTION ABOUT US TAX DEFERRAL, SECRETARY STRESSED THAT AN OVERALL REVIEW OF US TAX POLICIES WAS UNDERWAY WITH INTENSIVE EFFORT ON THE HILL BY TREASURY SECRETARY BLUMENTHAL. THE ISSUES (INCLUDING TAX CREDITS ABROAD) ARE POLITICALLY SENSITIVE, BUT RECOMMENDATIONS ARE EXPECTED SOON. (THE MALAYSIAN AMBASSADOR INTERJECTED TO NOTE THAT UNCERTAINTY OVER INVESTMENT WAS NOT LIMITED TO MALAYSIA BUT EXISTED THROUGHOUT THE REGION. HE HOPED

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THAT US TAX POLICY WOULD RECOGNIZE THE MINIMUM LINKAGES EXISTING BETWEEN DOMESTIC AND FOREIGN INVESTMENT DECISIONS.

(I) PM VISIT - THE SECRETARY AND MAHATHIR DISCUSSED THE POSSIBILITY OF THE PRIME MINISTER VISITING WASHINGTON AND MEETING WITH THE PRESIDENT IN LATE SEPTEMBER. THIS WOULD BE OF HELP INVIEW OF THEASEAN SUMMIT, THE U.S.-ASEAN

ECON CONSULTATIONS, THE STR STRAUSS TRIP AND THE PM'S
CURRENT CALENDAR.(WE ARE IN TOUCH WITH THE WHITE HOUSE
AND WILL PROVIDE DATES AS SOON AS THEY ARE AVAILABLE.)
3. ATMOSPHERE - MAHATHIR MEETING LASTED NEARLY AN HOUR
OR TWICE AS LONG AS ANTICIPATED. THIS WAS DUE TO NUMEROUS
QUESTIONS BY THE SECRETARY ON MAHATHIR'S VIEWS ON
FOREIGN AFFAIRS BEYOND JUST MALAYSIA. WE BELIEVE MEETING
IMPLICITLY RECOGNIZED MAHATHIR'S IMAGE AS A RISING STATES-
MAN AND PM HEIR-APPARENT. VANCE

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